

**REPORT OF THE AUDIT OF THE
FULTON COUNTY
SHERIFF'S SETTLEMENT - 2006 TAXES**

**For The Period
April 19, 2006 Through April 30, 2007**



**CRIT LUALLEN
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EXECUTIVE SUMMARY
AUDIT EXAMINATION OF THE
FULTON COUNTY
SHERIFF'S SETTLEMENT - 2006 TAXES

For The Period
April 19, 2006 Through April 30, 2007

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2006 Taxes for the Fulton County Sheriff for the period April 19, 2006 through April 30, 2007. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The Sheriff collected taxes of \$2,447,342 for the districts for 2006 taxes, retaining commissions of \$94,898 to operate the Sheriff's office. The Sheriff distributed taxes of \$2,302,301 to the districts for 2006 Taxes. Taxes of \$51,695 are due to the districts from the Sheriff and refunds of \$2,992 are due to the Sheriff from the taxing districts.

Report Comments:

- The Sheriff's Office Lacks Adequate Segregation Of Duties
- Internal Controls Over Financial Reporting Should Be Strengthened
- The Sheriff's Annual Tax Settlement Should Be Prepared In Accordance With KRS 134.310

Deposits:

The Sheriff's deposits as of April 30, 2007, were exposed to custodial credit risk as follows:

- Uncollateralized and Uninsured \$40,056

The Sheriff's deposits were covered by FDIC insurance and a properly executed collateral security agreement, but the bank did not adequately collateralize the Sheriff's deposits in accordance with the security agreement.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Steven L. Beshear, Governor

Jonathan Miller, Secretary

Finance and Administration Cabinet

Honorable David Gallagher, Fulton County Judge/Executive

Honorable Robert Hopper, Fulton County Sheriff

Members of the Fulton County Fiscal Court

Independent Auditor's Report

We have audited the Fulton County Sheriff's Settlement - 2006 Taxes for the period April 19, 2006 through April 30, 2007. This tax settlement is the responsibility of the Fulton County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Fulton County Sheriff's taxes charged, credited, and paid for the period April 19, 2006 through April 30, 2007, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated August 18, 2008 on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



To the People of Kentucky

Honorable Steven L. Beshear, Governor

Jonathan Miller, Secretary

Finance and Administration Cabinet

Honorable David Gallagher, Fulton County Judge/Executive

Honorable Robert Hopper, Fulton County Sheriff

Members of the Fulton County Fiscal Court

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discusses the following report comments:

- The Sheriff's Office Lacks Adequate Segregation Of Duties
- Internal Controls Over Financial Reporting Should Be Strengthened
- The Sheriff's Annual Tax Settlement Should Be Prepared In Accordance With KRS 134.310

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen

Auditor of Public Accounts

August 18, 2008

FULTON COUNTY
ROBERT HOPPER, SHERIFF
SHERIFF'S SETTLEMENT - 2006 TAXES

For The Period
April 19, 2006 Through April 30, 2007

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 236,049	\$ 370,367	\$ 1,019,240	\$ 230,644
Tangible Personal Property	39,732	89,931	192,991	132,093
Fire Protection	452			
Increases Through Exonerations	85	128	473	83
Franchise Taxes	36,675	55,710	142,822	
Additional Billings	393	591	2,271	384
Bank Franchises	17,143			
Penalties	1,646	2,534	7,238	1,714
Adjusted to Sheriff's Receipt	(6)	(8)	(33)	(12)
Gross Chargeable to Sheriff	<u>332,169</u>	<u>519,253</u>	<u>1,365,002</u>	<u>364,906</u>
<u>Credits</u>				
Exonerations	954	1,447	4,540	959
Discounts	3,847	6,585	17,092	5,197
Delinquents:				
Real Estate	7,508	11,288	36,944	7,334
Tangible Personal Property	715	1,156	4,082	5,649
Franchise Taxes	<u>3,205</u>	<u>5,108</u>	<u>10,378</u>	
Total Credits	<u>16,229</u>	<u>25,584</u>	<u>73,036</u>	<u>19,139</u>
Taxes Collected	315,940	493,669	1,291,966	345,767
Less: Commissions *	<u>13,715</u>	<u>20,981</u>	<u>45,219</u>	<u>14,983</u>
Taxes Due	302,225	472,688	1,246,747	330,784
Taxes Paid	292,496	464,281	1,215,877	329,647
Refunds (Current and Prior Year)	<u>213</u>	<u>315</u>	<u>698</u>	<u>214</u>
		**	***	
Due Districts or (Refund Due Sheriff)	<u>\$ 9,516</u>	<u>\$ 8,092</u>	<u>\$ 30,172</u>	<u>\$ 923</u>

*, **, and *** See Next Page.

The accompanying notes are an integral part of this financial statement.

FULTON COUNTY
 ROBERT HOPPER, SHERIFF
 SHERIFF'S SETTLEMENT - 2006 TAXES
 For The Period April 19, 2006 Through April 30, 2007
 (Continued)

* Commissions:

10% on	\$	10,000
4.25% on	\$	1,145,377
3.5% on	\$	1,291,965

** Special Taxing Districts:

Library District	\$	3,068
Health District		1,718
Extension District		2,445
Soil Conservation District		183
Mental Health District		650
Watershed District #1		20
Watershed District #2		8
		<hr/>

Due Districts	\$	<u>8,092</u>
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*** School Districts:

Fulton County School	\$	(2,992)
Fulton Independent School		<u>33,164</u>

Due Districts	\$	<u>30,172</u>
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FULTON COUNTY
NOTES TO FINANCIAL STATEMENT

April 30, 2007

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

FULTON COUNTY
NOTES TO FINANCIAL STATEMENT
April 30, 2007
(Continued)

Note 2. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). On April 30, 2007, the Sheriff's bank balance was exposed to custodial credit risk because the bank did not adequately collateralize the Sheriff's deposits in accordance with the security agreement.

- Uncollateralized and Uninsured \$40,056

Note 3. Tax Collection Period

The real and personal property tax assessments were levied as of January 1, 2006. Property taxes were billed to finance governmental services for the year ended June 30, 2007. Liens are effective when the tax bills become delinquent. The collection period for these assessments was October 25, 2006 through April 30, 2007.

Note 4. Interest Income

The Fulton County Sheriff earned \$1,060 as interest income on 2006 taxes. As of August 18, 2008, the Sheriff owed \$59 in interest to the Fulton County School District, \$43 in interest to the Fulton Independent School District, and \$131 in interest to his fee account.

Note 5. Sheriff's 10% Add-On Fee

The Fulton County Sheriff collected \$11,261 of 10% add-on fees allowed by KRS 134.430(3) which was used to operate the office. As of August 18, 2008, the Sheriff had overpaid his fee account \$1,887 in 10% add-on fees.

Note 6. Advertising Costs And Fees

The Fulton County Sheriff collected \$1,475 of advertising costs and \$839 of advertising fees allowed by KRS 424.330(1) and KRS 134.440(2). As of August 18, 2008, the Sheriff owed \$1,475 in advertising costs to the county and \$839 in advertising fees to his fee account.

FULTON COUNTY
NOTES TO FINANCIAL STATEMENT
April 30, 2007
(Continued)

Note 7. Duplicate Franchise Tax Bills And Receipts

The Sheriff collected \$2,762 in duplicate franchise tax billings during the 2006 tax year. These collections were the result of the following public service companies being erroneously billed a second time due to turnover in management of the Fulton County Clerk's office.

2004 Duplicate Franchise Bills:

AT&T Wireless Services	<u>\$ 2,762</u>
Total	<u><u>\$ 2,762</u></u>

The Fulton County Attorney and the Kentucky Department of Revenue are currently seeking a resolution to the matter.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable David Gallagher, Fulton County Judge/Executive
Honorable Robert Hopper, Fulton County Sheriff
Members of the Fulton County Fiscal Court

Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the Fulton County Sheriff's Settlement - 2006 Taxes for the period April 19, 2006 through April 30, 2007, and have issued our report thereon dated August 18, 2008. The Sheriff prepares his financial statement in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Fulton County Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Fulton County Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Fulton County Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the modified cash basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statement that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting.



Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

We consider the deficiencies described in the accompanying comments and recommendations to be significant deficiencies in internal control over financial reporting.

- The Sheriff's Office Lacks Adequate Segregation Of Duties
- Internal Controls Over Financial Reporting Should Be Strengthened

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiencies described above to be material weaknesses.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Fulton County Sheriff's Settlement - 2006 Taxes for the period April 19, 2006 through April 30, 2007 is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matter that is required to be reported under Government Auditing Standards and which is described in the accompanying comments and recommendations.

- The Sheriff's Annual Tax Settlement Should Be Prepared In Accordance With KRS 134.310

The Fulton County Sheriff's responses to the findings identified in our audit are described in the accompanying comments and recommendations. We did not audit the Sheriff's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Fulton County Fiscal Court, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

August 18, 2008

COMMENTS AND RECOMMENDATIONS

FULTON COUNTY
ROBERT HOPPER, SHERIFF
COMMENTS AND RECOMMENDATIONS

For The Period
April 19, 2006 Through April 30, 2007

INTERNAL CONTROL - SIGNIFICANT DEFICIENCIES AND MATERIAL WEAKNESSES:

The Sheriff's Office Lacks Adequate Segregation Of Duties

The Sheriff's office lacks adequate segregation of duties in the following areas:

- The Sheriff's deputy responsible for preparing the daily checkout sheet also collects money and prepares the daily deposit.
- The Sheriff's bookkeeper, who is responsible for preparing the monthly tax reports and tax distributions, also collects money.

While the Sheriff has implemented compensating controls to offset the lack of segregation of duties, failures in the operation of those compensating controls have been noted. As a result, we recommend the following additional controls be implemented to strengthen the Sheriff's internal controls over tax collections and distributions.

- The Sheriff should perform the monthly bank reconciliation, reconciling bank receipts and disbursements to the monthly tax reports and tax distributions.
- The Sheriff should personally deliver monthly tax reports and tax distribution checks to the taxing districts and receive a signed receipt from the district.
- The Sheriff should agree cancelled checks for refunds to the refunds disclosed on the monthly reports.

Sheriff's Response: Due to the size of this county, two employees are all we can employ due to the lack of funds. A secretary and a bookkeeper.

Internal Controls Over Financial Reporting Should Be Strengthened

Prior to necessary audit adjustments, the Sheriff's 2006 tax settlement was materially misstated. This misstatement was due to deficiencies in the computer tax software along with the exclusion of franchise tax collections and all tax distributions. The Sheriff's tax settlement, which is submitted to fiscal court for approval, should accurately reflect all taxes collected and disbursed during the tax collection period. Therefore, we recommend the Sheriff or an appointed designee perform a thorough review of the Sheriff's annual tax settlement. This review should include tracing amounts on the settlement to the source documentation, recalculating these amounts, and also checking the mathematical accuracy of the settlement. Also, this review should include comparing the amount of taxes collected on the settlement to the taxes collected on the monthly tax reports. Such a review will strengthen internal controls over financial reporting and lessen the chance of material misstatement.

Sheriff's Response: We will try to get this better by working with LI Smith on a closer look at their program.

FULTON COUNTY
ROBERT HOPPER, SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Period April 19, 2006 Through April 30, 2007
(Continued)

STATE LAWS AND REGULATIONS:

The Sheriff's Annual Tax Settlement Should Be Prepared In Accordance With KRS 134.310

The Sheriff did not include franchise tax collections or tax distributions on his 2006 tax settlement. KRS 134.310 (5) states, "In counties containing a population of less than seventy thousand (70,000), the sheriff shall file annually with his final settlement:

- (a) A complete statement of all funds received by his office...
- (b) A complete statement of all expenditures of his office..."

We recommend the Sheriff comply with KRS 134.310 by including franchise tax collections and tax distributions on his annual tax settlement that is presented to and approved by fiscal court.

Sheriff's Response: I wasn't aware this included Franchise, since there are so few.

